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**NORTEL**  
NORTHERN TELECOM

May 11, 1998

Ms. Magalie Roman Salas  
Secretary  
Federal Communications Commission  
1919 M Street, N.W. -Room 222  
Washington, D.C. 20554

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MAY 11 1998


Re: Calling Party Pays  
Ex Parte File, WT Docket No. 97-207

Dear Secretary Salas:

Pursuant to the Commission's ex parte rules, enclosed is an original and six copies of a Nortel research report entitled "Calling Party Pays in Caribbean and Latin America" for inclusion in the ex parte file associated with the referenced FCC proceeding, as well as for distribution to the Commissioners. Although the study focuses on experience obtained in the Caribbean and Latin America, we believe the information contained in the study will also be useful for the United States.

If you need any further information, please do not hesitate to call me at (202) 508-3605.

Sincerely,

  
Raymond L. Strassburger  
Director, Government Relations  
Telecommunications Policy

Enclosure

RLS/MVC/kc

cc: Joseph Levin

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NORTHERN TELECOM

WT Docket No. 97-207

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DEPT. OF COMMERCE  
BUREAU OF ECONOMIC ANALYSIS

# **CALLING PARTY PAYS IN CARIBBEAN AND LATIN AMERICA**

**Research Report**

**by**

**Gil Simoes**

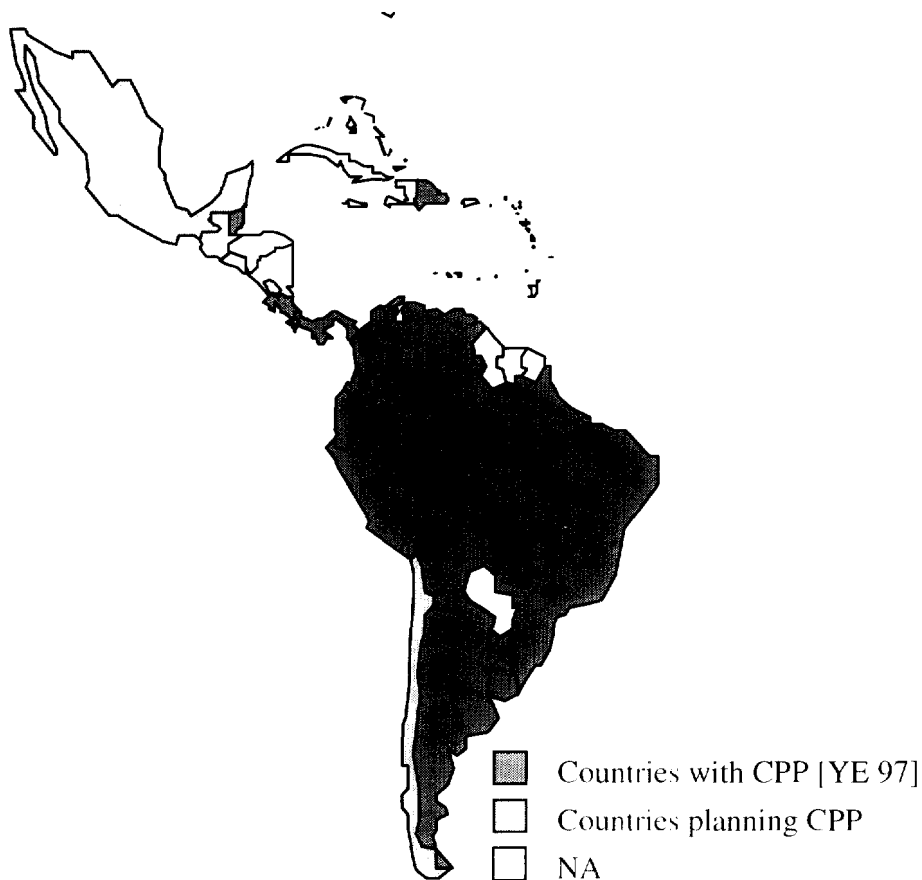
**Market Analysis & Evolution**

**March 1998**

## CALLING PARTY PAYS IN CARIBBEAN AND LATIN AMERICA

### I INTRODUCTION

Where Calling Party Pays (CPP) has been launched, operators have experienced increased network traffic in terms of incoming calls, total calls placed, and minutes of use. The main reason for this is that as cellular subscribers shift from always paying airtime to having the calling party pay airtime their effective monthly bill is lowered. The subscriber then has the tendency to use the phone more since they can now consume more minutes and have a similar monthly bill as before CPP. Additionally, subscribers are more likely to distribute their cellular number more widely as they are no longer responsible for paying for incoming calls which also stimulates incoming minutes. According to a study by Yankee group, 66 percent of wireless phone users in CPP markets are very likely to leave their phones on all the time and an additional 25 percent are somewhat likely to leave their phones on all the time.



CPP is widely used for wireless services in Europe and Asia, whereas in the western Hemisphere it has only recently become significant. At close of 1997, ten markets had implemented calling party pays: Argentina, Bolivia, Brazil, Colombia, Costa Rica, the Dominican Republic, Ecuador, Peru Uruguay and Venezuela. Chile and Mexico are reported to be moving in a similar direction.

COUNTRY	YEAR/MONTH INTRODUCED
Argentina	April 1997
Belize	NA
Bolivia	1991
Brazil	1994
Chile	Upcoming
Colombia	1994
Costa Rica	June 1996
Dominican Republic	1988
Ecuador	1997
Mexico	Upcoming
Panama	NA
Peru	May 1996
Uruguay	1995
Venezuela	1990

*Source: Pyramid Research*

In order to implement CPP, there must be an agreement between the wireline and wireless operators since the wireline operator must bill the subscriber for wireline charges. Typically in the CALA markets, the wireless operator will pay the wireline operator for its billing services by giving the operator a percentage of the airtime revenue. For example, in Ecuador, a wireline customer pays around US\$0.30 per minute for calls that terminate on the wireless network. Of that amount, the wireline operator keeps six percent and passes the remaining 94 percent to the wireless network operator.

## **II A FEW EXAMPLES FROM THE MARKET PLACE**

Markets in CALA that transitioned to CPP show that the model can lead to increased MOUs and can balance the scale of outgoing versus incoming traffic, and at the same time stimulate overall wireless demand.

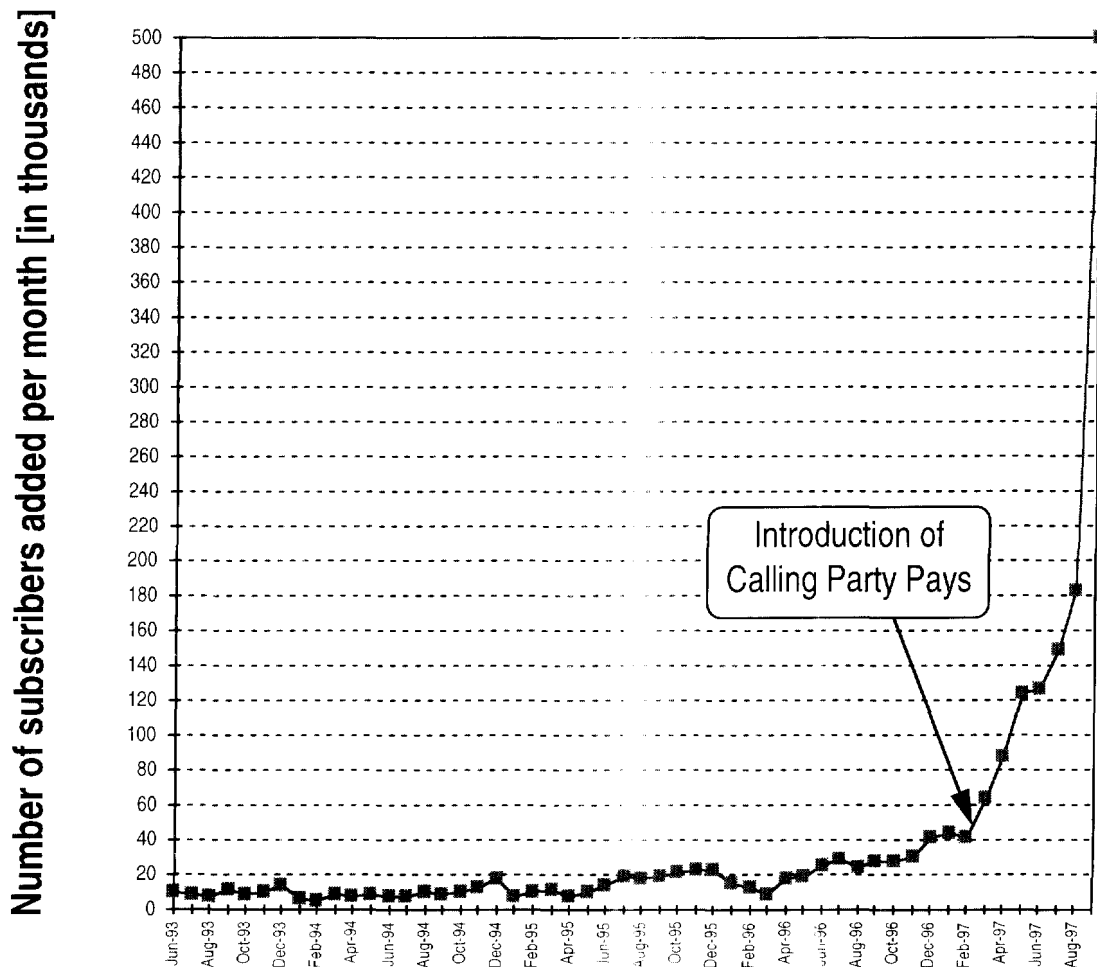
### **ARGENTINA**

On 16 April 1997 the Comisión Nacional de Comunicaciones (CNC), Argentina's telecoms regulatory authority, allowed cellular operators to institute a "calling party pays" tariff structure. Although the implementation of the new system is optional, cellular operators have already notified customers of the changes. Individual customers may request to remain with the old "mobile party pays" system, and can switch between

the two whenever desired.

The CNC also recently fixed the cellular airtime tariffs at \$0.35 plus value-added tax (VAT) for normal calls and \$0.45 plus VAT for calls made from a public payphone. TASA and TELECOM, the two main wireline operators, customers will now have to dial a prefix of +15 before calling cellular numbers and will be billed separately for calls made to cellular telephones.

The calling party pays tariff structure has already made a significant impact in the cellular subscribership, increase in usage and reduction in churn.



The following details the sources of revenue pre and post CPP for operators in Argentina. The shift of the relative importance of airtime due to increased revenue from CPP will allow reduced activation fees and minute charges thus stimulating further wireless demand.

Sources of Revenues	YE96 (ends September)	YE97 (ends September)
Airtime	36%	44% (21% cellular, 23% CPP)
VAS (Value Added Services)	6%	8%
Activation	34%	33%
Pulsos Telefónicos (per minute charges on local or long distance calls)	24%	15%

## COLOMBIA

An important regulatory decision made by the Ministry – a "calling party pays" tariff schedule – served as a catalyst for high subscriber growth. The benchmark being used for comparison is that of neighboring Venezuela, which saw its subscriber base grow from under 10,000 in 1991 to over 210,000 at year-end 1993. So far, the policy seems to have contributed to Colombia's explosive growth – nearly 255,000 subscribers signed on for service in just 18 months. Another factor that has contributed to growth is the steady decline of activation fees. In the eastern region, operators charged activation fees of over \$1,000 when they began offering service. Those fees have fallen to under \$200 in many cases.

### Colombian Cellular Subscriber Growth, April 1995 - Evolution after introduction of CPP

Operator	YE1994	4Q94 Growth	April 1995	1Q95 Growth
Celumóvil	22,759	137%	32,847	44%
Celumóvil de la Costa	6,018	187%	8,197	36%
COCELCO	21,750	283%	38,168	75%
Celcaribe	2,500	400%	5,050	102%
COMCEL	19,400	635%	29,282	51%
Occidente y Caribe Celular (OCCEL)	14,900	163%	36,624	146%
<b>Totals</b>	<b>87,327</b>	<b>236%</b>	<b>149,268</b>	<b>71%</b>

Source: Operators, Pyramid Research estimates.

Operators in Colombia have not only experienced an increase in subscribers but also an increase in average monthly usage. Subscribers in Colombia averaged roughly 400 minutes of use (MOUs) per month during the first year of service, which was much higher than the regional average of 150-200 minutes per month. Since the initiation of service, average usage in Colombia has dropped to roughly 200-250 minutes per month but remained above the regional average. COMCEL, one of the country's main operators, reported churn for the year ending 31 March 1996 of 19%, which as the company indicated falls within international average of 18%-24%.

## **COSTA RICA**

Average monthly minutes of use (MOU) in the Mexico and Central America region continues to decline as the overall subscriber base grows to reach more marginal users. The exception to declining minutes of use per subscriber has been Costa Rica, where calling-party pays and per minute charges as low as \$0.09 have driven minutes of use from 125 in 1996 to 182 by mid-1997.

## **VENEZUELA**

The first country in Latin America to introduce "calling party pays" tariff schedule was Venezuela – it served as a catalyst for high subscriber growth. Venezuela saw its subscriber base grow from under 10,000 in 1991 to over 210,000 at year-end 1993. As a result of this innovative plan, cellular usage rates in Venezuela remained twice that of many markets in the region. The "calling party pays" tariff structure narrowed the gap between cellular and wireline rates.

However, economic sluggishness has affected wireless usage in Venezuela. In 1994, average usage was roughly 290 minutes per month. However, in 1995, MOVILNET reported average usage per month of a much lower MOU. Despite lower average usage rates, the calling party pays tariffing policy has boosted incoming traffic. In 1995, MOVILNET reported that of the 2.14 million calls that the operator processed daily, 35%-40%, were incoming local calls.

## **III USAGE TRENDS IN LATIN AMERICA**

As cellular service markets mature in the region, and cellular operators bring on more marginal customers, average usage begins to decline. Some operators report that on average, usage has been declining 10% annually. In Mexico, a country without calling party pays, its leading non-wireline cellular operator, IUSACELL, has reported a dramatic drop in usage over the past several years. In 1991, IUSACELL's cellular customers averaged over 250 minutes per month. By the end of the 1994, average usage on IUSACELL's network had declined to 174 minutes. By the end of 1995, average usage had dropped to 141 minutes per month. During the first half of 1996, IUSACELL followed its downward trend, reporting usage of 125 minutes a month. Rapid usage fall-off during 1995 can be partially attributed to the country's economic crisis.

Unlike operators in Argentina, a country that has only very recently introduced calling party pays, and Mexico that have witnessed steady declines in usage, over the past three years Peru's Telefónica has seen dips and rebounds in its usage levels in the 250-300 minutes per month range. The operator reported the following average usage: 272 minutes in 1993; 254 minutes in 1994; 290 minutes in 1995; and 266 minutes during the first quarter of 1996. TELE2000 reported average monthly call traffic of 390 minutes per month for commercial customers, and 280 minutes per month for individual customers. Operators in Colombia report average usage in the 250 minutes per month range. One operator, COMCEL, has even reported a slight rise in average usage over the 1994-1995 period following the introduction of calling party pays, from 235 minutes to 245 minutes per month.

Countries	CPP	Monthly Usage Levels	Traffic Balance Outgoing-Incoming
United States	No	102 MOU	80-20
Mexico	No	125 MOU	NA
Argentina	April 1997	180 MOU	60-40 <sup>1</sup> [September 97]
Personal		180 MOU	60-40
Unifon		NA	66-33
CTI		NA	75-35
Peru	May 1996	NA	NA
Telefonica		250-300 MOU	60-40
Tele200		280-390 MOU	NA
Venezuela	1990	200 MOU	60-40
Colombia	1994	250 MOU	NA
COMCEL		245 MOU (1995) 200 MOU (1997) <sup>2</sup>	60-40
Costa Rica	June 1996	182 MOU	NA
Israel	mid-1994	500-550 MOU	50-50
Cellcom		400-450 MOU (1997)	50-50

Source: Operators, Pyramid, CTIA

<sup>1</sup> Estimation based on airtime revenue split [Pyramid Research, September 1997]

<sup>2</sup> Estimated